



## **The Public Service (Croke Park) Agreement 2010-2014**

### **Summary and Chamber Network Perspective on Next Steps**

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## Foreword

Austerity has become a dirty word in Irish political discourse. It is recklessly thrown about in debates to imply a future of poverty, deprivation and hardship. It has become loaded with connotations of fear.

However, austerity can be regarded in a different way. Meeting our responsibilities and accepting that Ireland has to face certain challenges is about reclaiming authority over our own future. Austerity will not cost us our sovereignty; it will strengthen Ireland's position as an independent nation, ready to grow and develop whenever the global economic conditions are right.

It's important to remember that this course of action was recognised as necessary in the 1980s. Austerity was forced on the Irish people at a time when drastic action was required to bring the country's finances in to balance support confidence and ultimately stimulate growth. The result was a period of exceptional economic stability followed by very significant increases in living standards.

The OECD's Economic Survey of Ireland, 2011<sup>1</sup> concludes that the Government must, "persevere on the path of fiscal consolidation". This includes fully complying with the EU-IMF targets, reducing the budget deficit, broadening the tax base, strengthening fiscal frameworks and increasing public service efficiencies.

Brendan Howlin, Minister for Public Expenditure and Reform, has recently stated that 80% of all Government spending is on education, health and welfare. This figure is expected to rise to 88% over the course of the consolidation in public finances. It follows that that the Government must identify new ways to reduce spending in these and other areas.

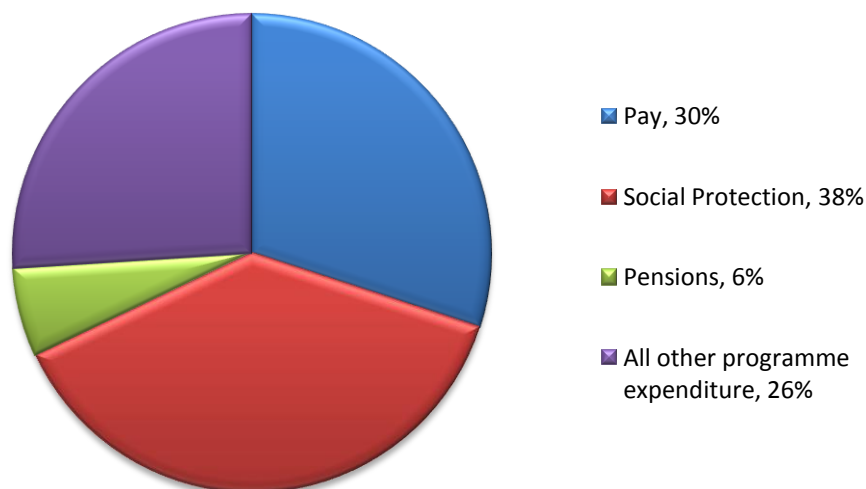
The scale of the challenge ahead is expressly laid out in the Government's own Comprehensive Expenditure Report (2012-2014).<sup>2</sup> Closing the deficit is a policy imperative. This will not come from revenue raising policies alone; the Government must also reduce expenditure. The pie-chart below illustrates the proportion of current government spending on pay, pensions and social protection. These levels of spending are simply not sustainable if Ireland is serious about reducing its deficit and meeting its commitments.

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<sup>1</sup> [http://www.oecd.org/document/21/0,3746,en\\_2649\\_33733\\_48842623\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/21/0,3746,en_2649_33733_48842623_1_1_1_1,00.html)

<sup>2</sup> <http://www.budget.gov.ie/budgets/2012/Documents/CER%20-%20Estimates%20Final.pdf>

## Current Expenditure by Type, 2011



Source: Comprehensive Expenditure Report (2012-2014)

Since 1987 many issues affecting Public Service workers in Ireland, including wages and conditions, were dictated by a process of 'Social Partnership'. This involved a series of tripartite agreements reached between the Government, representatives of the business community and the trades unions.<sup>3</sup> This formal process came to an end in 2009; however, what the Government calls a process of 'social dialogue' has begun with the adoption of the Croke Park Agreement.

However, the whole Croke Park project seems designed to underachieve when it could do so much more for the benefit of all. This is not to be overcritical of the public service. It is clear that pain has been suffered across the board. This is about creating lasting change now, not tinkering around the edges. The private sector has had to reform or die as it sought to survive the downturn since 2007. In 2011 alone, five firms a day that have not been able to sufficiently address the new challenges in this economy have gone into liquidation. Can we honestly say that reform has been delivered with the same urgency in the public sector?

As this document shows, the Agreement is an important first step in the creation of an efficient and productive public service for Ireland. However, while much has been done, it is essential that the Government builds on the savings and efficiencies gained through the Agreement.

The Government must seek new ways of rationalising, streamlining and shrinking the size of the public sector in the formulation of Budget 2013 and beyond as it seeks to improve the public finances. Furthermore, the Government must prepare for 2014 when the commitments agreed to under Croke Park will come to an end. This will provide an opportunity for the Government to

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<sup>3</sup> It was an example of neo-corporatism, whereby social, economic and political decisions are reached by dividing society into key groups and allowing representatives of each to negotiate in the best interests of their members. Crucially, each negotiating body is recognised as having a monopoly of representation of their members. The hierarchical nature of the organisations gives them the jurisdiction to bargain on behalf of, and also discipline, those they are acting for.

negotiate more radical and substantive changes to the public sector: changes that can further increase efficiencies while protecting existing jobs.

## Summary of Recommendations

### ***1. Reducing the cost and size of the public sector now***

Outsourcing of non-core activities and processes can enable public services to perform their core, front-line functions while saving considerable amounts of money. A structured approach to public sector business process outsourcing could reduce the size of the public sector by 30,000 and deliver savings of up to €1 billion over ten years.<sup>4</sup>

### ***2. A three year pause on increments***

During 2000–08, the gross exchequer pay bill rose 118% in nominal terms, driven by staff numbers rising 35 percent and average pay increases of 61%.<sup>5</sup> While there has been a reduction of 13.5 pc across the board in the period since then, the public sector pay bill needs to fall further. A logical starting point is to pause all increments for a period of three years. This is particularly important given that 63% of all public servants qualify for increments.<sup>6</sup> In 2011 alone, increments increased the public sector pay bill by €250m.

### ***3. Further Non-pay related savings***

Additional real savings must be produced through ongoing and further redeployment of staff, enhanced shift flexibility, and other ‘shared services’ approaches as a means of closing the gap between what the Government spends and what it takes in taxes.

### ***4. Savings from pensions***

Final salary Defined Benefit pension schemes are unsustainable in the present economic climate. The public sector needs to move towards Career Average Revalued Earnings (CARE) pensions to put pension funding at a sustainable funding costs level for the medium term. In the commercial semi-state sector, ESB, which employs almost 7,000 staff,<sup>7</sup> has secured pension savings that have contributed to a reduction of a deficit of approximately €500 million by moving to this type of pension scheme.<sup>8</sup>

### ***5. Issues related to sick pay***

The cost of public sector sick leave is too high. With recorded sick leave costing €284 million per annum in the HSE alone, the Government must introduce more sophisticated tracking, monitoring and enforcement with a view to halving these costs in the short term.

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<sup>4</sup> This figure is an estimate based on a 10% saving on salaries, as well as savings on training, investment in technology and consultancy fees.

<sup>5</sup> [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/Glossary:ESA95](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Glossary:ESA95)

<sup>6</sup> <http://implementationbody.gov.ie/publications/>

<sup>7</sup> <http://www.esb.ie/main/about-esb/annual-report-2010.jsp>

<sup>8</sup> Report of the Review Group on State Assets and Liabilities (p. 42). The Stationary Office, April 2012

## ***6. Savings from better management***

With approximately 30,000 public servants earning more than €80,000 per annum, there appears to be more than enough management capacity in the public sector. These managers in all sectors of the public sector must be enabled to manage and deliver change.

## ***7. Supporting growth alongside public sector cost containment measures***

We also need to encourage public sector organisations to purchase goods and services from local firms and consortia rather than relying exclusively on end-to-end solutions provided by major international entities. Department of Finance *Circular 10-10 Guidance Document on SME participation* must be fully enforced in a way that supports start-ups and SMEs seeking to secure local reference sites and customers.

## ***8. Applying lessons learned from New Zealand Experience***

A near financial meltdown in New Zealand in the late 1980's was averted through the application of a combination of structural reforms and the sale of state assets not dissimilar to what is planned in Ireland over the course of the Troika funding programme. The mantra at the time in New Zealand was 'TINA': 'There Is No Alternative', Ireland has similar challenges at this time and should apply the lessons learned from the New Zealand Experience.

## Overview

The Public Sector Agreement 2010-2014 (Croke Park Agreement) was reached in 2010 between the Government and the Public Services Committee of ICTU, as well as the representative Garda and Defence Force associations. It involves, “a commitment by public servants and their managers to work together to change the way in which the public service does its business so that both its cost and the number of people working in the public service can fall significantly, while continuing to meet the need for services and improve the experience of service users.”<sup>9</sup>

In return, the government agreed, until 2014, to:

- Introduce no further reductions to public service pay rates;
- Create no further compulsory redundancies;
- Extend the period within which the January 2010 pay reductions are disregarded for the purposes of calculating pensions; and
- Review the position on public service pay in the spring of each year of the Agreement.

The commitments to transform the Public Service are being overseen by a new Implementation Body,<sup>10</sup> chaired by PJ Fitzpatrick. Mr. Fitzpatrick is assisted by a committee with equal representation from public service management and public service workers. Speaking to the Public Accounts Committee in March, 2012, Mr Fitzpatrick said the agreement is designed to, “support a substantial reduction in pay and non-pay costs on the one hand and the continued delivery, maintenance and reform of services against that backdrop.”<sup>11</sup>

A series of annual Action Plans were devised by the relevant sectors to achieve efficiencies and savings. These Action Plans include specific time-bound commitments which should allow for analysis and evaluation. Indeed, the Implementation Body has the responsibility of reviewing these Plans and preparing an Annual Review for the Minister which quantifies the sustainable savings made in each sector.

On June 13, 2012 The Implementation Body published its second annual report.<sup>12</sup> It made a number of impressive claims:

- Public service staff numbers have been reduced by 28,000, or 8.8%, since 2008 from 320,000 to 292,000;
- The Exchequer pay bill has been reduced by 17.7% between 2009 and 2012, from €17.5bn (Gross) to €14.4bn;
- Pay Bill Savings of €650m were achieved during the year under review (Q1 2011 to Q1 2012) driven largely by the reduction in staff numbers
- Administrative efficiency (or ‘non-pay’) savings totalling €370m were reported for the review period. Adding the examples of non-pay savings presented in last year’s Report totalling €308m, gives a total of €678m in non-pay savings in the first two years of the Agreement.

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<sup>9</sup> <http://per.gov.ie/croke-park-agreement/>

<sup>10</sup> <http://implementationbody.gov.ie/>

<sup>11</sup> [debates.oireachtas.ie/ACC/2012/03/22/00004.asp](http://debates.oireachtas.ie/ACC/2012/03/22/00004.asp)

<sup>12</sup> <http://implementationbody.gov.ie/action-plans-progress-reports/>



Nevertheless, concerns remain in a number of areas. More must be done to generate savings, particularly from cuts to the public sector pay and pensions bill. Given Ireland's huge deficit, resulting in the State borrowing over €1bn a month, more needs to be done to deliver savings which will close this gap. Furthermore, the negative impact of the VAT hike in Budget 2012 has only heightened the need to find additional savings and spending cuts. Finally, many of the figures used to illustrate savings use 2008 as a benchmark figure. The savings appear less impressive if benchmarked at 2006.

This document includes a number of recommendations, which could guarantee further savings and produce increased efficiency and productivity in the public service.

## Indicators of Success

Much consideration has been given to the success of the Croke Park Agreement from the perspective of the Government and the Unions; however, as an organisation representing the interests of the business community, Chambers Ireland is interested in further issues:

- Impact on the wider economy;
- Industrial disputes;
- The cost of Government; and
- Public Service productivity and efficiency.

### *Impact on the wider economy*

Job retention and security, along with sustainable wage levels, ought to increase consumer confidence. In turn, this should have a positive impact on the wider economy. The KBC Ireland/ESRI Consumer Sentiment Index<sup>13</sup> has indicated slight improvements in consumer confidence; however, it remains low when compared to the average between 1996 and 2012. People in Ireland, regardless of job security, seem to be intent on saving rather than spending, which does little to stimulate economic growth.

### *Industrial disputes*

Statistics from the Central Statistics Office<sup>14</sup> from February, 2012 show that 3,695 days were lost to industrial disputes in 2011 and 6,602 days lost in 2010. This is a remarkable turnaround from 2009 when 329,593 days were lost. While this was an exceptional year a more worthwhile comparison can be made with the figures from 2008, when 4,147 days were lost. The trend since 2005 is one of increasing industrial peace.

The Agreement has clear guidelines concerning the resolution of industrial disputes. If agreement cannot be reached at local level, there is a six week period of negotiation and consultation. From there, it can be referred to the Labour Relations Commission and, if necessary, the Labour Court, which is required to issue a binding recommendation within four weeks. This is generally recognised as preferable to all previous agreements.

### *Cost of Government*

In his presentation to the Public Accounts Committee,<sup>15</sup> PJ Fitzpatrick recognised the challenges ahead. Saving money while providing essential services is increasingly difficult in the context of a number of factors:

- the population has increased by 340,000 or 8% between 2006 and 2011;
- numbers on the Live Register have increased by 285,000, or 280% in the last five years;
- there are some 500,000 more medical card holders now than in 2007;

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<sup>13</sup> [http://www.esri.ie/irish\\_economy/consumer\\_sentiment/latest\\_consumer\\_sentiment/](http://www.esri.ie/irish_economy/consumer_sentiment/latest_consumer_sentiment/)

<sup>14</sup> [www.cso.ie/en/media/csoie/releasespublications/.../disputes\\_q42011.pdf](http://www.cso.ie/en/media/csoie/releasespublications/.../disputes_q42011.pdf)

<sup>15</sup> Loc.cit.

- since the end of the 2008/2009 academic year student numbers in Institutes of Technology and universities have risen by 14.9%, while staff numbers have fallen by 7.3%; and
- the number of day cases in hospitals has risen by 26% between 2007 and 2010 while attendances at outpatient clinics rose 16%.

Therefore, there is a real need for innovative and creative initiatives in order to reduce the cost of government.

### ***Public service productivity/efficiency***

The need for innovative and creative thinking is nowhere more important than in the area of making the public service more efficient and productive in the context of spending cuts and ‘squeezed’ budgets. Indeed, the National Competitiveness Council has identified a decline in the productivity of public service workers since 1994.<sup>16</sup> In an analysis of ‘Output per Hour Worked’, the public service was the second most productive sector of the Irish economy in 1994. By 2007 it had fallen behind the economic average.<sup>17</sup>

Reductions to the cost of government and increases to public service efficiency are being sought through policies and initiatives in a range of areas:

### **Sick Leave**

Minister for Public Expenditure and Reform, Brendan Howlin, announced plans to overhaul public sector sick leave arrangements as part of Budget 2012.<sup>18</sup> Sick leave in the public service costs the country over €550 million every year.<sup>19</sup> Currently public service workers are entitled to receive full pay for certified sickness absence for up to six months in one year, and half- pay thereafter, subject to a maximum of 12 months of paid sick leave in any period of four years. Staff can also receive seven days of uncertified sick pay in any 12 month period. Minister Howlin himself has described this situation as unsustainable, and in need of serious reform in order to increase efficiency and productivity. This could also boost morale among workers.

The Government is planning a number of significant changes:

- Entitlements to certified sick pay reduced to three months on full pay, followed by three months on half-pay.
- A reduction in uncertified sick leave from seven to three days in any one year.
- New arrangements for staff with serious long-term illnesses.

These proposals are currently being discussed at the Labour Relations Commission.

Representatives of trades unions have not received the proposals favourably. Shay Cody, IMPACT general secretary and chair of the ICTU Public Services Committee, told the LRC that the blanket reduction in sick leave arrangements proposed by management would do little to address any abuse of the system.<sup>20</sup> IMPACT and other unions are intent on defending the existing arrangements.

The issue will not be resolved before going to the Labour Court.

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<sup>16</sup> Ireland’s Productivity Performance , 1980-2011, Forfás, 2012

<sup>17</sup> Ibid, page 25

<sup>18</sup> <http://www.budget.gov.ie/budgets/2012/EstimateStatement.aspx>

<sup>19</sup> Correspondence from Secretary General of Department of Public Expenditure and Reform to Public Accounts Committee

<sup>20</sup> <http://www.impact.ie/Croke-Park-Agreement/Management-of-sick-leave-under-review.htm>

However, more progress is being made on proactively managing absences without legitimate reason. Two workers at Galway University Hospital have recently been sacked for persistent absenteeism. Such actions are deemed necessary in the context of startling figures that show how 1,100 HSE staff members are out sick every day in the HSE West area. A positive development in this regard is that a spokesperson for HSE West has commented that the rate is moving closer to the national target of 3.5% of all workers.

## **Performance Management**

Changes in the Performance, Management and Deployment System (PMDS) of public service workers could see fixed numbers of poorly performing workers losing increments. This is an attempt to create a high-performance culture within the public service in order to make it more productive and efficient. It is also proposed that workers will have to achieve a 'three' rating in their annual review in order for their increment to be approved. Chambers Ireland supports this change. Currently workers must only achieve a 'two' rating. This rating is defined as "needs improvement".<sup>21</sup>

## **Redeployment**

This is the Government's preferred method for filling any vacancies in the public service. Redeployment allows staff to be moved from areas of lesser priority to areas of greater need.<sup>22</sup> This redeployment is designed to take place within sectors and also on a cross sectoral level. This is a means of protecting jobs and ensuring employees remain productive.

While redeployment was not designed to facilitate geographical movement, under the agreement, public service workers have agreed to move up to 40km to meet redeployment demands. We note and recognise this flexibility offered by public servants on this issue.

## **Allowances**

The Department of Public Expenditure and Reform is shortly expected to publish the outcome of its review of public service allowances. It has been tasked with finding a 10% saving in all allowances and premium payments paid to public service workers (€75million of the existing €2 billion). This should impact on existing workers as well as new entrants into the public service. This is viewed as essential due to the very low numbers taking up positions in the public service.

However, the Teachers' Union of Ireland has already indicated that this amounts to a breach of the Croke Park Agreement and might signal the end of the reforms agreed under the deal.<sup>23</sup>

## **Public sector pay**

A European Central Bank Study from December 2011<sup>24</sup> illustrates how public-private wage differentials in poorly performing countries, including Ireland, are considerably greater than countries performing well, such as Germany. They suggest there is a correlation between excessive levels of public service pay and poor macroeconomic performance and shrinking public finances. This issue becomes more important as, "public sector labour markets have grown in size in many

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<sup>21</sup> Official figures, released on 26<sup>th</sup> June 2012, show that only 30 civil service staff members were denied an incremental pay increase on performance ground. This is 0.1% of the total staff

<sup>22</sup> <http://hr.per.gov.ie/redeployment/>

<sup>23</sup> <http://www.tui.ie/>

<sup>24</sup> [www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1406.pdf](http://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1406.pdf)

countries, so that the implications of their functioning for overall macroeconomic performance as well as for the public finances has become increasingly relevant.”<sup>25</sup>

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<sup>25</sup> *ibid*

## Recommendations

### 1. Reduce the Cost and Size of the Public Service

We believe that Government should plan now for transformative change by transferring up to 30,000 public servants involved in clear 'end to end' business processes such as passport processing to the private sector while also securing their jobs. We estimate that this could save the Government up to €1 billion over ten years. These savings would not only come from a reduction in the wages bill, but also from reduced training costs, lower levels of investment in new technologies and lower consultancy bills.

There are many talented and experienced people in the public service; however, many of them work within inefficient systems. Private sector companies, with a long term view, have the ability to produce greater efficiencies from these individuals by fully utilising their skills and abilities. The private sector company becomes responsible for re-training large numbers of individuals as well as investing in new technologies. This represents a considerable transfer of risk from the public to the private sector. In addition, Transfer of Undertakings (Protection of Employment) legislation (TUPE) guarantees many of the employee's terms and conditions.<sup>26</sup>

One major pit-fall on the path to outsourcing is the area of pensions. These are not covered by TUPE arrangements. However, Government, trades unions and outsourcing companies must develop innovative solutions to this problem. An example of how this can be done is the Fair Deal for Staff Pensions scheme introduced by the UK Government.<sup>27</sup> Under this scheme, employees involved in a compulsory transfer to another employer are entitled to join a "broadly comparable" pension scheme. Another option is the 'secondment' of workers rather than a full transfer. While secondment is a much lower risk option for workers, it may not produce the savings desired by the Government. While this option has been explored in the UK and is subject to case law, there is little precedent for its implementation in Ireland. The Government should provide clear guidelines now.

Outsourcing of non-core activities and processes can enable public services to perform their core, front-line functions while saving considerable money. The companies to which certain functions are outsourced tend to be experienced in terms of transformational change for transactional efficiency and may also have access to the latest relevant technology and innovation. We only have to look to Northern Ireland and the outsourcing of the public sector pay roll to see how this can be achieved.<sup>28</sup> This function was outsourced to HRConnect and, with the assistance of three private sector companies, is now held up as an example of best practice.

Research conducted by the Parliament of New South Wales in 1997 looks at the experience of outsourcing in Australia.<sup>29</sup> It concludes that when services are outsourced, particularly using competitive tendering and contracting, savings of 20% can be expected. Furthermore,

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<sup>26</sup> <http://www.recruitireland.com/careercentre/HR/Introduction-to-TUPE-Legislative/4658>

<sup>27</sup> [www.hm-treasury.gov.uk/d/pensions\\_bta\\_guidance\\_290604.pdf](http://www.hm-treasury.gov.uk/d/pensions_bta_guidance_290604.pdf)

<sup>28</sup> The Public Sector Magazine, 2012, p.37

<sup>29</sup> <http://www.parliament.nsw.gov.au/prod/parlment/publications.nsf/key/ResearchBf221997>

research from the London School of Economics<sup>30</sup> shows how outsourcing works best when it is used not just to cut costs but to introduce innovative business practices. One example of this in Ireland is the emergence of ‘cloud-computing’. This is one area where outsourcing actually has the potential to lead to job creation.

Outsourcing has already been embraced by many in the private sector. The Mazars Outsourcing Survey, 2011<sup>31</sup> illustrates how Irish firms are increasingly turning to outsourcing as a means of addressing the economic downturn. 92% of respondents said outsourcing added value to their company. The main reason for outsourcing was, “to enhance process efficiency and quality and to relieve internal resources to concentrate on core functions.”

Furthermore, in its Action Plan for Jobs,<sup>32</sup> the Government recommends this course of action, particularly in the areas of Research and Development and “Business Process Outsourcing”. Over 39,000 people are currently employed in these activities in Ireland, supported by the enterprise agencies.

Large companies both domestic and multinational, operating in this field in Ireland include:

1. Abtran—employing over 1,000 people in Cork, providing services including sales, customer services, administration and financial processing
2. Arvato Finance Limited—employing over 1,200 people in Ireland providing IT, consulting, finance and accounting services to clients
3. Perot Systems—providing IT services to clients including a European Communications Solutions Provider and a European Bank employing 15,600 staff worldwide<sup>33</sup>
4. SouthWestern—who provide a range of outsourced services in their centre Clonakilty, Co Cork

If, as the Government wishes, Ireland is to become a global leader in these areas, then the public sector should also use such services to increase its own productivity and efficiency.

There have been some moves towards outsourcing in the Irish Public Sector. It has been discussed in a range of documents including:

1. The Report of the Task Force on Public Services, 2008,
2. The Report of the Special Group on Public Service Numbers and Expenditure Programmes, 2009.
3. The Programme for Public Service Reform,<sup>34</sup> which identifies “External Service Delivery” as one of the Government’s priorities for action from Q1 2012 to Q3 2013.

While progress in this area has been slow, some examples exist that illustrate the advantages of appropriately applied business process outsourcing. These include:

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<sup>30</sup> <http://blogs.lse.ac.uk/politicsandpolicy/2011/05/12/austerity-outsourcing/>

<sup>31</sup> <http://www.mazars.ie/Home/News/Publications/Reports/Mazars-Surveys/Mazars-Annual-Outsourcing-Surveys/Outsourcing-Survey-2011>

<sup>32</sup> [www.djei.ie/publications/2012APJ.pdf](http://www.djei.ie/publications/2012APJ.pdf)

<sup>33</sup> See <http://www.perotsystems.com/CountrySites/Ireland/CaseStudies/EuropeanBank>

<sup>34</sup> Department of Public Expenditure and Reform, November 2011

- Department of Agriculture Animal Traceability Scheme
- eFlow
- InjuriesBoard.ie

Delegating these functions to outsourcing companies ensures they are carried out effectively and cost efficiently while enabling the client to focus on their core functions. Huge opportunities exist across a range of government departments for enhancing services for taxpayers through outsourcing, especially within the big three spending departments of Health, Education and Social Welfare. Areas where outsourcing could be introduced and developed include means testing, grant allocation, student loans, payment processing, claim handling, and water and waste management.

We note recent comments by Tom Geraghty, General Secretary of the Public Service Executive Union.<sup>35</sup> He rejects the idea that the private sector is inherently better than the public sector, but suggests that not all public services have to be delivered by public servants, particularly as the State is effectively ‘in examinership’. Instead, pragmatic decisions have to be taken depending on which sector will produce high quality, efficient and cost effective outcomes. He recognises that unions have a mistrust of outsourcing but acknowledges that the current financial position of the Irish State leaves very few options.

## 2. Pay Related Savings

“Ireland’s compensation for public employees rose by 3½ percentage points of GDP (and GNP) in the pre-crisis boom. During 2000–08, the gross exchequer pay bill rose 118 percent in nominal terms, driven by staff numbers rising 35 percent and average pay increases of 61 percent. In ESA95<sup>36</sup> terms, by end-2008, compensation had risen to 11.2 (13) percent of GDP (GNP) and one-third of primary current spending, above European levels, especially the original 11 Euro Area economies.”<sup>37</sup>

In this context, Chambers Ireland notes the Government’s commitment to reduce the public service pay bill by about €1.2 billion before 2014.<sup>38</sup> However, additional savings must be achieved in the period after 2014 in order to achieve real reductions in the cost of government. Nevertheless, savings in the Public Service Pay Bill must not simply lead to an increase in the Exchequer Pension Bill. Expressed as a share of GNP, the net exchequer pay and pensions outlay in 2015 is projected to be 0.4 percentage points below the 2008 level, representing a relatively modest decline.<sup>39</sup>

Any system of performance management must be operated in a fair and transparent manner. However, more robust procedures within the public service are necessary: procedures that positively motivate workers without negatively affecting morale. There ought to be clear mechanisms to signal difficulties and immediate consultation between

<sup>35</sup> <http://www.publicaffairsireland.com/conferences/>

<sup>36</sup> [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/Glossary:ESA95](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Glossary:ESA95)

<sup>37</sup> Ireland: Sixth Review Under the Extended Arrangement, IMF, June 2012

<sup>38</sup> [www.budget.gov.ie/The%20National%20Recovery%20Plan%202011-2014.pdf](http://www.budget.gov.ie/The%20National%20Recovery%20Plan%202011-2014.pdf)

<sup>39</sup> *ibid*



management and unions to ensure best workplace practice. Official figures, released on 26<sup>th</sup> June 2012, show that only 30 civil service staff members were denied their incremental pay increase on performance grounds. This amounts to 0.1% of staff members.<sup>40</sup>

In the wake of the second annual review of the Implementation Body, the Civil and Public Services Union have called for a reversal of some of the pay cuts introduced in the Agreement. Chambers rejects this position, recognising the need to produce additional savings wherever possible. We note that, 63% of all Civil Service employees remain eligible for incremental pay rises, including 2,776 who currently earn between €70,000 and €150,000. The Department of Public Expenditure has confirmed that the cost of increments in 2011 was €250m.<sup>41</sup>

### 3. Non-pay Savings

Chambers Ireland also welcomes the Government's commitment to find 'non-pay savings'. However, the subsequent initiatives must be genuinely radical in order to transform the culture and productivity of public service workers. In a 24 hour society we need more flexible working hours and arrangements to suit all users of the public service. Longer days may be required in order to ensure adequate resourcing during peak periods. Not only would such initiatives have a positive impact on efficiency, they could also improve worker morale as it could lead to more 'family friendly' work practices.<sup>42</sup>

Chambers Ireland's preferred method of saving money in the public service is cost containment measures rather than headcount reductions. In this context we note and welcome moves towards redeployment and the increases commitment to 'shared services' as mechanisms for producing savings in the public sector.

Particularly welcome is the commitment to remove all duplicate activities by 2015. However, the shared services approach must be one option in a menu which can be analysed and evaluated in order to identify which will produce the greatest efficiencies. These options can include in-sourcing, co-sourcing and full outsourcing.

It is essential that the Reform and Delivery Office<sup>43</sup> and the Cabinet Committee on Public Service Reform<sup>44</sup> produce meaningful and accessible cost/benefit analyses to justify the chosen options. A recent report from the National Audit Office in the UK<sup>45</sup> has identified how, after seven years, poor delivery of shared services within central government has actually led to, "over complexity, reduced flexibility and a failure to cut costs." It's important that the Irish Government learns from some of the mistakes identified in this report:

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<sup>40</sup> Reported in The Irish Times, 27<sup>th</sup> June 2012

<http://www.irishtimes.com/newspaper/ireland/2012/0627/1224318805878.html>

<sup>41</sup> <http://implementationbody.gov.ie/publications/>

<sup>42</sup> In the education sector for example, working parents would also greatly appreciate the facilitation of parent teacher meetings outside of office hours.

<sup>43</sup> [per.gov.ie/wp-content/uploads/Public-Service-Reform-pdf3.pdf](http://per.gov.ie/wp-content/uploads/Public-Service-Reform-pdf3.pdf)

<sup>44</sup> [http://www.taoiseach.gov.ie/eng/Taoiseach\\_and\\_Government/Cabinet\\_Committees/](http://www.taoiseach.gov.ie/eng/Taoiseach_and_Government/Cabinet_Committees/)

<sup>45</sup> [http://www.nao.org.uk/publications/1012/shared\\_service\\_centres.aspx](http://www.nao.org.uk/publications/1012/shared_service_centres.aspx)

- The cost of implementation must not outweigh the resulting benefits;
- The services provided should not be overly-customised to the needs of individual departments;
- The initiatives must be closely monitored by the relevant bodies (Reform and Delivery Office and the Cabinet Committee on Public Service Reform);
- Participation should be mandatory, rather than voluntary.

#### **4. Pensions Savings**

Rapid progress is required to move away from costly and unjust final salary, Defined Benefit (DB) pension schemes. Career Average Revalued Earnings (CARE) schemes would be a more affordable alternative. A move towards CARE schemes would have a considerable impact on the current exchequer pension bill as they have a greater impact on the highest earning individuals within each sector: those who currently enjoy unjustifiably large pensions. Evidence from commercial semi-state bodies shows how these schemes can be implemented with union agreement. In February 2012, negotiations between trades unions and management at ESB resulted in staff voting for a package of measures which could result in savings of €140 million a year. This came on top of an earlier agreement which saw the unions agree to a series of measures that would reduce a €0.5 billion pension deficit.<sup>46</sup> The flexibility shown by employees of this large utility offers a good template for the wider public service to apply in the context of securing pension entitlements and bringing Government finances in to balance.

#### **5. Issues Related to Sick Leave**

Chambers views the sums of money lost as a consequence of public service sick leave as no longer acceptable. Chambers urges the Government to ensure that these costs to taxpayers are reduced. Chambers welcomes the stronger approach taken by the HSE in this context and recognises that such actions can have a positive impact on productivity and workplace culture. Approximately €284 million a year is lost in the HSE alone arising from reported sick leave.<sup>47</sup> This is one area where significant savings can be achieved that can improve front line service and further enhance the patient experience in our hospitals.

Halving recorded sick pay costs in the HSE alone would save €142 million in 2013. In this context, this, along with the savings from a pause in increments, is equal to half the amount the Government is hoping to raise from the 2012 increase of VAT of 2% which is still negatively impacting on the domestic economy as evidenced by the soft VAT returns, further declines retail businesses and retail employment levels.

Chambers is concerned that current policy may set a dangerous precedent and lead to increased costs for private sector employers in relation to sick leave. The Department of Social Protection's attempts to move the burden of payment on to employers would have a disastrous impact on many Small and Medium Enterprises.

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<sup>46</sup> Report of the Review Group on State Assets and Liabilities (p. 42). The Stationary Office, April 2012

<sup>47</sup> Quoted in the Irish Independent, February 2012. <http://www.independent.ie/national-news/5000-hse-staff-still-call-in-sick-daily-at-cost-of-284m-a-year-3009898.html>

## 6. Savings from Better Management

Chambers Ireland regrets the amount of time taken in consultation and negotiations: cuts in the cost of government must be rapid and sustained. Management needs to be supported in focussing on front line services and significantly cutting the costs of public sector administration. Management also needs to commit to managing. We now know that 17,000 public sector workers are paid in excess of €100,000 and a further 13,000 between €80,000 and €100,000 so there is plenty of volume of management capability. We need to see more visibility of and accountability for their efforts. Perhaps they also need support such as change management training to help them deal with the challenges still ahead.

However, managers need support in their work. Currently, very few sanctions are available to them to deal with issues of non-performance. In a speech to Public Sector managers,<sup>48</sup> John McGuinness, Chair of the Public Accounts Committee, suggests a culture of under-performance has developed in many areas of the public service. He identifies “firm management and constant engagement” as the appropriate way to deal with it.

## 7. Supporting Growth alongside public sector cost containment measures

Public servants have to be supported in their tendering decisions to make purchases that support local businesses and start-ups. They also have to be allowed to make mistakes. At present the oversight of the Oireachtas Public Accounts Committee has led to application of the precautionary principle to too great an extent. In this context Government must emphasise the importance of local tendering. We need to encourage public sector organisations to purchase goods and services from local firms and consortia rather than relying exclusively on end-to-end solutions provided by major international entities. Tender requirements must not be excessive and must be simplified in order to enable more SMEs compete for business from Government.

Specifically the Government must ensure that Department of Finance *Circular 10-10 Guidance Document on SME participation* issued by the Department of Finance in October 2010 regarding how public procurement contracts should be awarded should be fully enforced and policed. Despite much rhetoric on this agenda not enough is being done to support local and new business start ups via tendering support from Government. The Croke Park Agreement can play a role in supporting enhanced flexibility in tendering decisions with the result that the taxpayer can support local jobs and start up companies seeking new clients and reference sites that will in turn help them to sell overseas.

## 8. Applying lessons learned from New Zealand

Chambers Ireland identifies New Zealand’s public sector reforms<sup>49</sup> as one potential option for Ireland. In 1984 New Zealand was ‘on the precipice’. The country had a very significant annual budget deficit and was bordering on bankruptcy.<sup>50</sup> The solution came through a decade of radical change which included substantial changes within the public sector. These changes included:

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<sup>48</sup> <http://johnmcguinness.ie/challenge-and-change-in-the-public-sector>

<sup>49</sup> <http://www.ssc.govt.nz/decade-of-change>

<sup>50</sup> The deficit was NZ\$3 billion

- A move towards fixed-term contracts, designed to improve performance;
- The explicit statement and evaluation of performance expectations;
- Greater turnover of personnel at senior level, leading to new and innovative ideas being tried and applied;
- A less rigid and bureaucratic public sector structure;
- The recruitment of empowered managers from the private sector to drive change.

Coupled with asset sales totalling NZ\$13billion<sup>51</sup> between 1988 and 1993, these changes secured the financial position of the State of New Zealand.

The example of New Zealand is particularly relevant for Ireland as both countries have public sectors built on the Westminster model of Government and public sector oversight and operation.

Crisis forced reform and innovation which have combined to improve the productivity and efficiency of New Zealand's public sector.

## 9. Looking Ahead

Chambers Ireland notes that the Croke Park Agreement has delivered some successes in terms of locking in previously agreed cost saving measures and enhancing flexibility.

However, public sector unions must accept that additional changes are necessary in order to reduce its budget and contribute to Ireland's recovery. The Government must ensure that progress made under the Agreement is continued after 2014 through the adoption of further innovative policies and initiatives to guarantee substantive and transformative changes in the public sector. It is only through innovative policies that Ireland will avoid public sector job losses on a scale now predicted by the Office of Budget Responsibility,<sup>52</sup> and Ernst & Young<sup>53</sup> in the UK.<sup>54</sup>

The Government must seek mechanisms to ensure that many of the savings negotiated through the Croke Park Agreement are extended to existing workers, as well as new recruits to the public sector. Considerable savings can be made in the areas of pay, allowances, increments and pensions if agreement can be reached. This could form a key aspect of Budget 2013 or any new agreement reached after the expiration of Croke Park in 2014. The importance of this is illustrated in the Government's own Comprehensive Expenditure Report, which shows that pay and pensions make up 36% of all Government spending.<sup>55</sup>

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<sup>51</sup> See <http://www.ssc.govt.nz/decade-of-change>

<sup>52</sup> Economic and Fiscal Outlook, OBR, November 2011

<sup>53</sup> [http://www.ey.com/Publication/vwLUAssets/ITEM\\_Club\\_special\\_report\\_11\\_2011\\_-\\_Autumn\\_statement\\_preview/\\$FILE/EY\\_ITEM\\_Autumn\\_statement\\_special\\_report\\_November\\_2011.pdf](http://www.ey.com/Publication/vwLUAssets/ITEM_Club_special_report_11_2011_-_Autumn_statement_preview/$FILE/EY_ITEM_Autumn_statement_special_report_November_2011.pdf)

<sup>54</sup> Estimates range from between 350,000 and 710,000.

<sup>55</sup> <http://www.budget.gov.ie/budgets/2012/Documents/CER%20-%20Estimates%20Final.pdf>